

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 PA-01 PRS-01 XMB-02 /115 W

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P 040855Z AUG 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 1350

INFO AMEMBASSY JAKARTA PRIORITY

AMEMBASSY LONDON PRIORITY

C O N F I D E N T I A L TOKYO 11736

E.O.11652: GDS

TAGS: ENRG, EFIN, ID, JA, US

SUBJECT: INDONESIA-JAPAN LGN TRANSPORTATION

REF: STATEW 189707

SUMMARY: NEGOTIATIONS ON LNG SHIP FOR TRANSPORTATION
BETWEEN INDONESIA AND JAPAN WILL REOPEN IN TOKYO
AUGUST 13 OR 16. PROSPECTS ARE NOT BRIGHT, HOWEVER,
THAT CHEROKEE CONTRACT CAN BE SAVED UNLESS GENERAL
DYNAMICS CAN CONVINCE JAPANESE THAT FIRST VESSEL
WILL BE READY BY END OF MARCH 1977. END SUMMARY.

1. ACCORDING TO FAR EAST OIL VICE PRESIDENT
SARWONO, WIJARSO TOLD INDONESIAN AMBASSADOR TO
JAPAN THAT PERTAMINA CANNOT CANCEL CONTRACT
WITH BURMAH TANKERS SINCE BURMA HAS FULFILLED ALL
CONTRACT REQUIREMENTS. BUT UNCONVINCED THAT
GENERAL DYNAMICS CAN DELIVER ON TIME, JAPANESE CON-
TINUE TO PRESS FOR CANCELLATION. PERTAMINA RE-
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JECTED, AT LEAST TEMPORARILY, LAST JAPANESE

COMPROMISE OFFER TO SUBSTITUTE TWO JAPANESE-BUILT VESSELS FOR 20 YEARS AND ADD FIVE CHEROKEE SHIPS AS THEY BECOME AVAILABLE. TO ACCEPT WOULD HAVE FORCED PERTAMINA TO PAY \$15 MILLION PENALTY. PERTAMINA HAS NEVERTHELESS ASKED LEHMAN BROTHERS TO STUDY ALL LEGAL IMPLICATIONS OF EITHER A TWO TANKER OR SEVEN TANKER CANCELLATION.

2. SARWONO BELIEVES JAPANESE WILL RECONSIDER THEIR POSITION ONLY IF A) GD CAN OBTAIN MARAD CERTIFICATION THAT IT CAN DELIVER "ON TIME" (END OF MARCH 1977), AND B) BURMA CAN COME DOWN FROM \$.367/MILLION BTU FREIGHT RATE OFFER.

3. SARWOOD SAID FELIOTES TOLD HIM THAT THE COAST GUARD HAS CERTIFIED WELDING ON AT LEAST ONE SPHERE. IF TRUE, SARWONO RECOMMENDS THAT BLACKWELL NOTIFY PERTAMINA TELEGRAPHICALLY AS TO WHICH SPHERE HAS BEEN CERTIFIED AND HOPEFULLY GIVING ASSURANCES THAT A VESSEL WILL BE DELIVERED ON TIME. IF BURMA IS PREPARED TO COME DOWN FROM ITS \$.367/MILLION BTU OFFER, PERTAMINA IS PREPARED TO "BEAR SOME OF THE RISK". (GOTAAS LARSON HAS ALLEGEDLY OFFERED \$.351/MILLION BTU).

4. LOAN DISBURSEMENTS SCHEDULED FOR AUGUST 31 ARE \$26 MILLION FROM THE ORIGINAL LOAN AGREEMENT AND \$50 MILLION FROM THE COST OVERRUN AGREEMENT. REQUESTS FOR DISBURSEMENT MUST, HOWEVER, BE MADE ON AUGUST 9. SINCE TALKS WILL NOT RESUME UNTIL AUGUST 13 OR 16 -- TO GIVE PERTAMINA'S NEW YORK LAWYER TIME TO STUDY THE CONTRACTS -- THE REQUESTS WILL NOT BE ACTED UPON IMMEDIATELY.

5. GOJ REPRESENTATIVES STILL ASSERT TO US THEY ARE NOT TAKING AN ACTIVE ROLE IN NEGOTIATIONS. BUT ON THE ISSUES, EVEN MOFA IS TAKING A RELATIVELY HARD LINE. ALTHOUGH NO FINAL STEPS HAVE BEEN TAKEN, JAPANESE END USERS HAVE "VIRTUALLY DECIDED" TO INSIST BURMA TANKER CONTRACT BE BROKEN. KEY IS WHETHER GD CAN DELIVER TANKERS ANYWHERE NEAR ON TIME. BOTH MOFA
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AND MITI ASKED EMBOFF IF USG HAD FIRM DELIVERY DATE. GOJ'S INFORMATION IS THAT FIRST VESSEL WILL NOT BE READY UNTIL DECEMBER 1977 AT THE EARLIEST "AND MAYBE NOT EVER." TEMPORARY, SUBSTITUTE VESSELS ARE NOT ACCEPTABLE FOR "SAFETY REASONS," RELATED TO MODIFICATIONS REQUIRED TO MATCH JAPANESE PORT FACILITIES.

6. GENERAL DYNAMICS VP GEORGE DURR, MORE THAN A

LITTLE BEMUSED AT BEING BROUGHT INTO LNG NEGOTIATIONS AT THIS STAGE, IDENTIFIES NISSHO-IWAI AS INSTIGATORS OF JAPANESE EFFORTS TO BREAK CHEROKEE CONTRACT. NISSHO WOULD PRESUMABLY PROFIT GREATLY FROM A SHIFT TO GOTAAS-LARSON/KAWASAKI SHIPS. DURR ALSO CLAIMS THAT NISSHO IS "SPENDING FREELY" TO PROMOTE CHANGE-OVER. DURR ALSO SAID HE UNDERSTOOD THE KAWASAKI SHIPS WOULD NOT BE READY UNTIL JUNE (ONLY TWO SPHERES HAVE BEEN COMPLETED).

7. COMMENT: NISSHO-IWAI MACHINATIONS CERTAINLY MAY BE A FACTOR IN LNG NEGOTIATIONS, BUT BY THEMSELVES CANNOT EXPLAIN APPARENT GOJ HARD-LINE. RATHER IT SEEMS TO US THAT GOJ ATTITUDE IS RESULT OF THE DEPRESSED STATE OF JAPANESE SHIP BUILDING INDUSTRY, LACK OF JAPANESE FINANCIAL RESPONSIBILITY FOR BROKEN CHEROKEE CONTRACT AND GENUINE DOUBTS ABOUT EFFICACY OF GENERAL DYNAMICS CONSTRUCTION SCHEDULE. IN OUR VIEW, TO SAVE CHEROKEE CONTRACT PERTAMINA WILL EITHER HAVE A) TO REDRESS THE BALANCE OF NEGOTIATING POWER BY OBTAINING COST OVERRUN FINANCING ELSEWHERE, I.E., THE US, OR B) TO MEET EACH JAPANESE ARGUMENT ON ITS MERITS. TO THE LATTER END, A TELEGRAM FROM MARAD TO PERTAMINA TESTIFYING AS TO WHEN THE FIRST SHIP WILL BE AVAILABLE WOULD SEEM TO BE USEFUL.
SHOESMITH

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